

Chapter 1

New Developments of “SOZAI (Material)” Business for Handicraft SMEs in Lao PDR

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Abstract

In FY 2018, the Institute of Developing Economies, Japan External Trade Organization (IDE-JETRO) conducted a SOZAI project for handicraft SMEs in Lao PDR. SOZAI means materials or techniques of artisans. More attention was paid to SOZAI than the final products, as SOZAI can be applied to numerous uses, such as the interior design of hotels, restaurants, cafés, and houses. In contrast, the uses for the final products of traditional craft industries tend to be more limited. For this reason, many traditional craftworks do not sell well. This paper focuses on the process of two research projects conducted in FY 2019 and FY 2020 to assess the performance of the handicraft SMEs in Lao PDR following the SOZAI project intervention. We initially planned to carry out a capacity-building program for the SMEs in provinces outside of Vientiane Capital and to conduct a questionnaire survey to assess the performance of the handicraft SMEs following the SOZAI project. This clarified that the need for a capacity-building program in provinces outside of Vientiane Capital might not be high, and the handicraft SMEs’ performance was immature. With this understanding, we changed course to redirect the focus on the interior design of hotels, restaurants, and cafés.

Key Words: handicraft, interior design, SME, Laos, material, SOZAI, JETRO, LHA, designer

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Introduction

This report is composed of three chapters and presents the results of two projects conducted in fiscal year (FY) 2019 and FY 2020:⁴

- 1) Feasibility study of an empirical research project on capacity building of Lao handicraft SMEs outside Vientiane
- 2) New Developments of ‘SOZAI (Material)’ Business for Handicraft SMEs in Lao PDR

As implied in the title of the first project, this project acted as preliminary research to develop the second project. Thus, the second project is the continued application and research project for the preliminary project. Nevertheless, there is an apparent discontinuity between the fundamental ideas between the two projects. However, both projects are based on the findings of the research project in FY 2018 entitled, “Empirical Research to Examine the Effectiveness of Supporting Policies to SMEs of Handicraft Industries in Lao PDR as to Realize Some Collaborations with Traditional Craft Industries in Japan.” In other words, a project assessment and course correction were made between the preliminary and the continued research project.

In this chapter, we explain the original preliminary project plan in FY 2019, what became clear, why we conducted the course correction, and we clarify what we did in FY 2020. The first section briefly explains the results of the previous research project in FY 2018. The second section presents the preliminary research project’s original plan in FY 2019, what was clarified, and why we conducted the course correction. The third section outlines the proceeding chapters.

1. Reviewing the Previous Research Project in FY 2018

Since 2001, the Japan External Trade Organization (JETRO) has provided technical assistance to the members of the Lao Handicraft Association (LHA) in cooperation with the Ministry of Commerce and Industry and the LHA (Ishida 2019; Iwakami and Yamada 2019). The JETRO has encouraged handicraft small and medium-sized enterprises (SMEs) in Lao PDR by conducting an annual contest during the annual Lao Handicraft Festival in cooperation with the LHA. The technical assistance program in FY 2018 was

⁴ The fiscal year of Japan starts in April and ends in March of the following year.

implemented as empirical research to examine the effectiveness of supporting policies to SMEs of handicraft industries in Lao PDR by the Institute of Developing Economies, JETRO (IDE-JETRO) and JETRO Vientiane. The previous research project of FY 2018 was composed of two parts; the first part was the “SOZAI (Material) Project,” which gave technical assistance to the SMEs in Lao PDR in order for them to provide special Laotian materials and/or techniques to the SMEs fitted for the lifestyles of foreign countries;⁵ the second aspect of the study was a questionnaire survey to assess the policy effects of the “GIFT Project,” a project to enhance the attractiveness of handicrafts as gifts that were conducted in FY 2015-FY 2017,⁶ and the results of the previous research project of FY 2018 were reported at a seminar held at Vientiane.

According to the results of the previous research project in FY 2018 and discussions at the seminar, the following points were confirmed:

- 1) SMEs that enjoyed the benefits of the GIFT and the SOZAI projects were confined to the LHA member SMEs that conducted operations only in the Vientiane Capital and its outskirt. SMEs that were non-members of the LHA and the SMEs outside of Vientiane were unlikely to recognize such JETRO projects.
- 2) In order to confirm the effects of the SOZAI project conducted in FY 2018, we would conduct follow-up surveys to assess the performances of the SMEs in the following years. At the same time, we had to confirm what the LHA inherited from the capacity-building programs that JETRO conducted.
- 3) Through the data analyses of the questionnaire survey results, we concluded that there were policy implications for Lao PDR’s government and we also determined to improve the quality of the report to a level required for academic journals in the future.

2. The Reasons for the Course Correction

Three points presented a challenge for the preliminary research project in FY 2019. Thus, we proposed a research project in FY 2019 that considered the feasibility of conducting a framework similar to the “Empirical Research Project on Handicraft Industry in Lao PDR” in FY 2018, bearing in mind the following points. First, we intended to conduct a brief survey on handicraft SMEs outside of Vientiane to identify the technical assistance needs

⁵ See Section 2 of Chapter 2, “Reviewing SOZAI Project,” regarding the project in FY 2018.

⁶ See the last part of Introduction of Chapter 2, regarding the GIFT project in FY 2015-FY 2017.

of such SMEs for FY 2020.⁷ Second, we planned to follow up with the handicraft SMEs who participated in the SOZAI project, especially those who won the prizes at the SOZAI contest in 2018. Third, we sought to confirm the contest during the Lao Handicraft Festival 2019. In particular, we wanted to confirm whether the LHA was able to conduct the contest without any JETRO assistance.⁸ Fourth, we endeavored to improve the analyses of the survey data collected in FY 2018 and improve the survey format to be conducted once again to assess the performance following the SOZAI project.

Among the above-enumerated objectives, we were able to conduct the second and the third. Regarding the second one, we continued to have dialogs with handicraft SMEs in October 2019, and in February and September 2020. For the third, we confirmed that the LHA conducted a gift contest at the Lao Handicraft Festival in October 2019. The scale was reduced; however, the first prize was given by the LHA. In addition to the first prize, the Industry and Commerce Minister’s Prize, the JETRO prize, and the Japanese Ambassador Award were given, so these prizes were awarded to four SMEs.

2.1 Interviews With Artisans Outside of Vientiane Capital

Regarding the first objectives, we conducted interviews with handicraft SMEs, exhibitors, and guests invited from provinces outside of Vientiane at the Lao Handicraft Festival 2019.⁹ From the north, the exhibited products and the origins of the invited guests are enumerated as follows:

- 1) Embroidered fabrics, eight villages of Phongsaly Province (Picture 1)
- 2) Rattan woven furniture, Mun District in Bokeo Province
- 3) Fabrics, wooden instrument, and toys, Hmong Tribe’s Village in Oudomxay Province
- 4) Fabrics, Luang Prabang Province
- 5) Pottery and woven basket, Chan Village of Luang Prabang Province (Picture 1)
- 6) Woven vine basket, a village of Houaphanh
- 7) Silky cocoon, Pek District in Xieng Khouang Province (Picture 1)
- 8) Embroidered fabrics, Hmong tribe’s village in Xaysomboun Province
- 9) Woven rattan sheet and broom, a village in Xaysomboun Province (Picture 1)

⁷ At that time, we had not determined whether to include the provinces outside of Vientiane Capital in a questionnaire survey, scheduled to be conducted in FY 2020.

⁸ It was determined that the JETRO could not continue to support the LHA from FY 2019, due to various circumstances in Japan.

⁹ The guests were producers from provinces outside of Vientiane, invited by the LHA. These guests are representatives of a village or a commune and they were unable to afford to rent their own booths.

Picture 1 Exhibited Products of the Invited Guests from Provinces out of Vientiane



1) Embroidered fabrics in Phongsaly Province



7) Silky cocoon in Xieng Khouang Province



5) Pottery and woven basket in Luang Prabang Province



9) Woven rattan sheet and broom in Xaysomboun Province



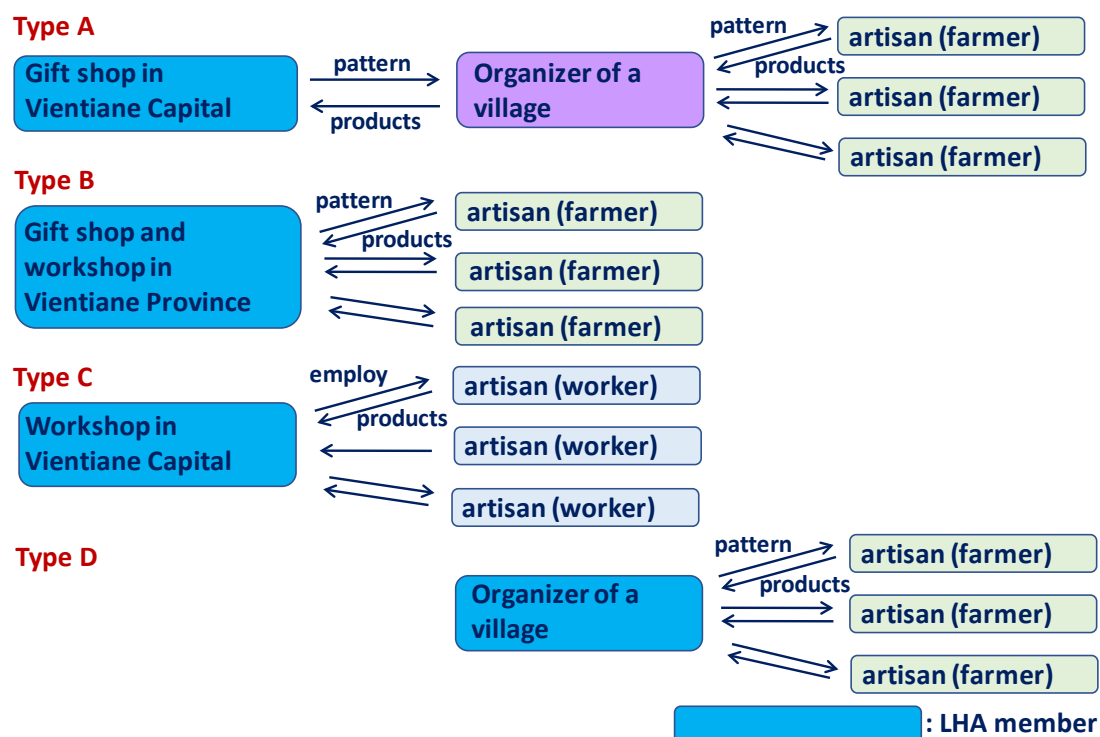
14) Woven rug with pandan leaves in Attaphu Province

Source: Taken by the authors on 28-29 October 2019.

- 10) Embroidered fabrics, Muang Phin district in Savannakhet Province
- 11) Dried flowers (textiles) and woven bamboo basket, a village of Salavan Province
- 12) Rug mat, a village in Sekong Province
- 13) Woven skirt and table-cross, a village of Attaphu Province
- 14) Woven rug with pandan leaves, a village of Attaphu Province (Picture 1)
- 15) Fabrics and wooden doll, Sonasomboune in Champasak Province

Most of the handicraft artisans are agricultural workers that produce handicraft products during the off-season. They continuously produce products of the same design and shape, inherited from their ancestors. According to an interview with a handicraft SME in Vientiane Capital who manages a gift shop, the artisans in rural villages produce fabrics

Figure 1 The Supply between the Master and the Artisans



Source: Created by the authors based on the interviews.

with several specific patterns. Still, they do not produce products with other patterns. An organizer of them sometimes sends photos of the products to get an order, and she/he usually comes to Vientiane Capital only once a year to bring the products ordered and to get orders for the coming year (Type A of Figure 1). The handicraft SME knows the patterns and materials specific to many villages in the whole Lao PDR.¹⁰ For instance, there are rug mats, dyed yarn, lacquerware, and textile patterns specific in each province (See Picture 2). Thus, such SMEs do not seek to follow the fashion trends in Vientiane Capital and in foreign countries and order products to artisans of villages that are suitable for patterns and the material that is popular with consumers.¹¹ The villagers do not grasp such fashion trends except for the organizers in a village. Such organizers visit markets like Talat Sao in Vientiane Capital to look at fashion trends and may order from some gift shops (Type D of Figure 1). According to a handicraft SME who manages a gift shop and a workshop employing some artisans in Vientiane Province, she often visits Vientiane

¹⁰ Based on an interview on 9 February 2020.

¹¹ In contrast, according to the interviews with the artisans of (4), (8), (13), and (15), Thai buyers come to buy the products.

Picture 2 Woven Rug and Dyed Yarns Specific to Sekong Province, Lacquerware Specific to Luang Prabang Province, and Pattern Specific to Xayaboury Province



Woven Rug Specific to Sekong Province



Dyed Yarns Specific to Sekong Province



Lacquerware Specific to Luang Prabang Province



Pattern Specific to Xayaboury Province

Source: Taken by the authors on 29-30 October 2019.

Capital and can often order products for the farmers in her neighborhood (Type B of Figure 1). Other than the three patterns of the SME, some handicraft SMEs have a workshop in Vientiane Capital and employ other artisans (Type C of Figure 1). Therefore, capacity-building programs conducted in Vientiane Capital by the JETRO can probably be considered the most effective way. If most of the three types of handicraft SMEs in Vientiane Capital are trained through a capacity-building program, the effects may be conveyed to the provinces outside of the Vientiane Capital. It would surely be most effective to provide such training to the organizer in each village; however, it is unsure

whether such organizers would participate in such a capacity-building program, even if we conducted seminars in some provinces outside of Vientiane Capital.

Thus, we concluded that it would not be cost effective, and it was unnecessary to conduct capacity-building in provinces outside of Vientiane Capital. The results based on the interviews with artisans from provinces outside of Vientiane Capital and some handicraft SMEs are equivalent with the relation of the marketing process of cloth depicted in Ohno (2020), while this paper does not treat non-textile products like wood, pottery, bamboo, rattan, and silverware.

Luang Prabang is a little bit different from other provinces. According to the interview with the artisans of 4) and 5), their products’ patterns are based on a tradition of their ancestors, who supplied products to the royal families. Currently, the final consumption of their products is gift shops in Luang Prabang, where many foreign tourists visit.

2.2. SOZAI Business on the Development Pathways

As a result of exhibiting the handicraft SMEs’ works at the Tokyo International Gift Show, 46 business talks with visitors took place were fine. According to a Japanese expert, the quality of the products at the SOZAI contest in October 2018 was more than expected, even though bending, a stain in the frame’s recess, and stitching that might break occurred after the contest (Iwakami and Yamada 2019).

After the handicraft SMEs’ returned from Japan, some of them decorated the panel in their shops; however, nobody bought the panel. As the Japanese expert explained, it should be targeted to interior designers, architects, and hotel managers, or an owner who may see the panel and feel like using it for their own purposes instead of selling it.

Thus, it was clarified that the new target for the SOZAI business is the interior design of hotels, restaurants, and cafés. However, the handicraft SMEs did not have much experience with selling their products for the interior design of hotels, restaurants, and cafés. The question was: How to approach designers, architects, and hotel managers/owners? What are their interests? If the target is a hotel, how do the SMEs contact the owner or the manager? In order to step up the SMEs’ SOZAI business, many questions had to be clarified.

Therefore, conducting a questionnaire survey to assess the SOZAI project’s performance was deemed premature as the SOZAI business is still on the development path. Much more practically, we conducted a questionnaire survey on Vientiane Capital, and Luang Prabang’s hotels to provide more effective information for the handicraft SMEs. Thus, we have determined to continue to follow up the handicraft SMEs’ activities

who participated in the Tokyo International Gift Show 2019, conduct interviews with designers, architects, and hotel-related experts, and conduct a questionnaire survey of the hotels in Vientiane Capital and Luang Prabang.

3. Outlines of the Upcoming Chapters

In the second section, we detailed the original objectives of the preliminary research project of FY 2019, the reasons for our conducting a course correction, and the new objectives of the research project for FY 2020. Next, we present outlines of the upcoming chapters.

Chapter 2, “Export and Domestic Interior Design Market Promotion by Handicraft SMEs in Lao PDR” by Masami Ishida and Junya Kitagawara explains the details of the GIFT project (FY 2015-FY 2017), introduces previous related studies on the handicraft industries in Lao PDR, and then briefly reviews the preliminary SOZAI project (FY 2018). After outlining the interview process’s methodology, we introduce the promotion efforts of the handicraft SMEs who exhibited their works at the Tokyo International Gift Show. More concretely, some of them had opportunities to exhibit their works at Style Bangkok, a lifestyle exhibition event, as well as at Expo 2020 Dubai, and to receive a mid-term training program supported by the Centre for the Promotion of Imports from Developing Countries (CBI). Among the three projects, Style Bangkok was realized; however, Expo 2020 Dubai was postponed. The training program was conducted online, and a planned study tour to the European Market was not realized due to the COVID-19 pandemic. After introducing the handicraft SMEs’ performances with export promotion, we present their process for promotion in the domestic interior market as detailed in the previous section. This section reveals what the handicraft SMEs did for self-promotion in the domestic interior market and how the Japanese expert guided them.

Chapter 3, “The potential application of Lao handicraft materials in hotel interior decoration: Findings from a questionnaire survey of hotels in Vientiane and Luang Prabang” by Yasushi Ueki reports an analysis of the results of the questionnaire survey conducted with hotel professionals in Vientiane Capital and Luang Prabang regarding the need for interior decoration, furniture, fixtures, and equipment (FFE), and operational supplies and equipment (OS&E). According to the survey results, more than 30% of the respondent hotels currently use Lao handicrafts to decorate reception, lobby, and guest room spaces. Nevertheless, it is evident that the domestically procured items are limited to uniforms, furniture, fixtures, and artwork. Remarkably, more than 60% of the hotels depend on bath amenities, stationary, lighting equipment, towels and other fabrics, cups,

dishes, and floor materials that are produced in Thailand rather than Laos. However, the respondent hotels expressed interest in procuring such items domestically. Of the owners, managers, and staff surveyed, nearly half of the respondent hotels attend the Lao Handicraft Festival, but only 20% of them had communicated with the LHA. Notably, more than 60% of them recognize that one of the reasons they use imported materials and products is the lack of information on available Lao handicrafts. In contrast, based on interviews with handicraft SMEs, very few have directly contacted hotels. Thus, regarding policy implications, the authors stress the importance of enhancing handicraft SMEs’ understanding of hotels’ FFE and OS&E needs and the need to provide information on handicraft producers and available products in Lao PDR to hotel owners and managers, in addition to ensuring the high quality of handicrafts as suitable for sale in the interior design and decoration market. Regarding the question of whether handicraft SMEs should contact hotel owners or managers, more than 80% of the respondents answered that the owner has the most influence on the choice of interior design.

Conclusions

This chapter described the process of the preliminary research project in FY 2019, “Feasibility study of an empirical research project on capacity-building of Lao handicraft SMEs outside Vientiane,” and the main research project in FY 2020, “New Developments of ‘SOZAI (Material)’ Business for Handicraft SMEs in Lao PDR.” In particular, we focused on the discontinuity of the two research projects and the reasons why our course correction was conducted. During dialogs with handicraft SMEs, we guided them to set a target of the domestic interior market for hotels, restaurants, and cafés. Regarding the reasons why we conducted a course correction, we believed that it is more practical and effective to conduct a questionnaire survey on hotels in Lao PDR than on the performances of the handicraft SMEs after the SOZAI project. As the need to conduct a capacity-building program similar to the SOZAI project as FY 2018, this choice was made in provinces outside of Vientiane Capital was deemed as not so high and it was determined that the SOZAI business is still on the development path. Based on these analyses, we set new research objectives. The following chapters will detail the results of our course correction.

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